



U.S. Department of State FY 2000 Country Commercial Guide: Lithuania

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I. Executive Summary

With a population of 3.8 million, Lithuania is a relatively small, but potentially attractive market for American goods and services such as consumer products, pharmaceuticals, computers and office equipment, capital equipment and machinery, environmental and electric power generation technologies. Lithuania also has a growing potential for foreign investment.

Many businesses were privatized during the first round of privatization. The second round of privatization, in which an estimated \$725 million of State property will be sold for cash, will presumably be one of the major attractions for foreign investment in 2000. The Lithuanian Government began its privatization drive in early 1997 with the State telephone monopoly. Some 200 companies were offered for sale in 1997, and for the first time these included companies from both energy and telecommunications sectors. The bulk of Lithuania's capital investment has been directed to the industrial sector.

Lithuania is seeking to liberalize its foreign investment laws to further attract foreign investors. The Lithuanian Government is following a cautious, but Western-oriented program of economic reform in banking and monetary policy, price structure, tax laws, land ownership laws, fiscal policy and foreign trade legislation. It has also adopted modern laws establishing copyrights, patents and trademarks. Lithuania has signed free trade agreements with 20 countries. In April 1994, a trilateral trade agreement between the three Baltic countries went into effect, abolishing all tariffs on industrial products.

Although there has been steady progress, the common problems found in the countries of the former Soviet Union remain. These include government bureaucracy, corruption and organized crime. These represent the most significant hurdles to U.S. trade and investment also in Lithuania.

This Country Commercial Guide (CCG) presents a comprehensive look at Lithuania's commercial environment through economic, political and market analyses. The CCGs were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. Country Commercial Guides are prepared annually at U.S. Embassies through the combined efforts of several U.S. Government agencies.

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II. Economic Trends and Outlook

Since restoring its independence in 1990, Lithuania has implemented reforms aimed at abolishing the remains of the former socialist system. In 1992, aided by IMF and other international institutions, Lithuania adopted a program to restrain inflation, reduce price

controls, lower the budget deficit and privatize the economy. Inflation has since dropped dramatically. For the first quarter of 1999, the inflation rate was 2.4%, down from 35.6% in 1995. GDP has improved noticeably since 1994, from 1% in 1994 to 3% in 1995. The forecast for GDP growth in 1998 was 5%, but due to the recent Russian economic crisis the GDP grew only by 3.5%. In 1999 the GDP decreased by 4% during the second quarter. Lithuania has a freely convertible national currency, Litas, which has appreciated against world currencies. For stability purposes it is tied to the U.S. dollar at the rate \$1: 4 Litas.

Due to the restructuring of the financial sector, together with improved banking supervision and enforcement, the macro-economic impact of the banking crisis had eased by 1999. The 1998 Russian crisis did not have a significant impact on the Lithuanian banking system.

According to the Lithuanian Department of Statistics the main exports in 1998 were mineral products (19%), mechanical goods and electrical equipment (12%) and products of chemical industries (9%). Lithuania's main imports in 1998 were: machinery, electrical and associated equipment (19%), mineral products, including oil and gas (15%) and transport means and equipment (12%).

Structural reform has proceeded rapidly in the privatization of small enterprises and in agriculture. Over 70,000 private farms have been established. However, due to the lack of financial resources and an inefficient crediting system, many of the new farmers are operating only at subsistence levels. Urban and rural property is being returned to its original owners, but legal mechanisms for title registration, sale and mortgaging of real property are not yet fully developed. About 86% of all enterprises and about 83% of state property included in the initial privatization program have been privatized. Some 5,714 (86%) out of 6,644 eligible companies were privatized during the first stage. Privatized state-owned capital equaled 3.4 billion Litas (current value \$850 million) - or approximately 30% of all state-owned property. The remaining state-owned property is valued at almost 9.9 billion Litas, or nearly \$2.5 billion. In March 1998, the Lithuanian government established the State Property Fund to manage and privatize the remaining state assets. The remaining assets to be privatized include the energy sector and more of the telecom and transportation sectors. Currently, privatization of the State property is carried out by the following methods:

1. Public share subscription (large and medium scale enterprises);
2. Auctions (small enterprises or divisions thereof);
3. Tenders or auctions for convertible currency;
4. Direct negotiations;
5. Lease with the option to purchase; and
6. A combination of different methods.

Privatization also includes tenders evaluated for the best business plan, i.e. tenders, which take into account both the financial offer and an overall plan for the development of a company. Open tenders were generally used to privatize large industrial enterprises for hard currency.

According to the Department of Statistics the amount of foreign investment in 1998 was \$1.3 billion. Most of it originated from the EU, the U.S. and C.I.S. Motorola and Williams Inc. are two of the largest U.S. investors.

Lithuania has historically been an exporter of agricultural products, primarily processed meat, dairy products and fish. As part of the Soviet Union, Lithuania exported about 80% of its agricultural production to the other Soviet Republics. Today owing to the diminished purchase power of the eastern markets and the inadequate restructuring of the agricultural sector, the trade balance to the east is negative.

Major infrastructure projects that are currently being implemented (or are still pending) include: the privatization and upgrading of the Mazeikiai oil refinery; safety upgrades of the Ignalina nuclear power plant; construction of the Via Baltica highway connecting the Baltic countries to the rest of Europe; expansion and modernization of Klaipeda sea-port facilities, and construction of the electric power transmission line to the West.

Lithuania's current road network is good especially along the few main routes. Likewise, the rail links to Russia are strong, though train tracks and grade crossings need upgrading in order to handle higher speeds and heavier loads. The port of Klaipeda is well equipped but in need of modern management techniques. Vilnius International Airport has been brought up to Western standards and is preparing to offer expanded services. Lithuania has two additional international airports- Kaunas and Palanga - and one commercial airport in Siauliai.

III. Political Environment

Lithuania has very good bilateral relations with the U.S., and the Lithuanian government and Parliament generally support American business interests. The current President is a Lithuanian-American who enjoys great popularity with the Lithuanian electorate. Their parliamentary system is vigorous, however, the governing coalitions can be quite tenuous which results in frequent personnel changes at the cabinet level. The United States strongly supports Lithuania's efforts to join European and Trans-Atlantic institutions. Lithuania has made notable progress towards membership in the WTO and the EU and hopes to join NATO in the future. While the Lithuanian Government and all major political parties support a free-market system, there are still visible traces of the Soviet methodology and regulatory traditions at the lower levels of bureaucracy.

IV. Marketing U.S. Products and Services

Lithuania has a growing network of grocery and produce stores of Western standard. The first supermarkets were opened a couple of years ago. The assortment of goods in grocery stores is improving; some specific product groups, such as fat-free or imported ethnic products are becoming more popular. Import of foreign goods into Lithuania is increasing. Several of the new private businesses concentrate on importing. The trading companies' intermediary role in the foreign trade is gradually vanishing as most of the wholesalers and retailers are today undertaking international transactions themselves and working directly with the foreign suppliers or producers.

The marketing of consumer products in Lithuania is somewhat inhibited due to the lack of large distributors or wholesalers. Food and grocery import, and wholesale and retail operations are handled by private food wholesale companies. Only a handful of these companies are considered reliable enough to be engaged in international commercial activity. In addition to consumer product wholesalers, even meat processing enterprises import meat or livestock directly.

The market for consumer products in Lithuania is fragmented. Consumer preferences differ among various income, age and social groups. According to recent statistics, 60% of those interviewed claimed that owing to their limited income, price is the most conclusive factor in shopping situations. For people who are satisfied with their income level, product quality and brand names are more important. They consider high price as an indicator for good quality.

Advertising may be conducted freely in any printed or electronic media. The leading newspapers in Lithuania are "Lietuvos Rytas", "Respublika", "Lietuvos Aidas" published in Lithuanian and Russian. The leading business newspapers are "Verslo Zinios" and "Baltic Business News".

At present, there are no laws that regulate the relationship between a foreign company and its distributors or agents in Lithuania. A distributor relationship can be determined according to the provisions of each specific distributor agreement.

A joint venture with the local partner is the best way for a U.S. company to start business in Lithuania. It is advisable to find out as much as possible about the potential partner. The basic data on a Lithuanian company, including credit ratings, is available from local information service companies, although this system is not yet fully developed. Foreign investors can choose between two means of establishment: representative office or incorporated business organization. Establishment of a representative office in Lithuania gives the foreign company a legal presence in the country, but does not permit it to carry on any economic activity, and is thus useful only for assessing business opportunities. In order to pursue economic activity in Lithuania, the foreign investor must incorporate his business organization. Foreign investors may choose the following types of enterprise:

1. Sole trader
2. General or limited partnership
3. Public or closed joint-stock company
4. State (local government) enterprise
5. Agricultural company
6. Cooperative; and
7. Investment agency

The most typical type of enterprise adopted is a joint-stock company.

A closed (private) or public joint-stock company can be either wholly or partially foreign owned. The investor may buy into an existing company or establish a new one. If a foreign investor requires a wholly foreign owned company, the only appropriate type of enterprise is a joint-stock company.

The principal differences between closed and public joint-stock companies are the amount of authorized share capital, the number of shareholders and the circulation of shares. Presently, a public joint-stock company must have a minimum paid up share capital of 100,000 Litas (approx. \$25,000), at least 50 shareholders, and its shares must be circulated and traded publicly. A closed joint-stock company must have a minimum paid up share capital of 10,000 Litas (approx. \$ 2,500), a minimum of one and a maximum of 50 shareholders, and its shares may not be publicly circulated or traded.

Pre-incorporation steps:

1. The investor must secure the premises used as the official

address of the new company in the registration process.

2. The proposed name of the new company must be registered at the patent bureau.
3. The memorandum/agreement on incorporation and the by-laws of the new company must be prepared and notarized.
4. A hard currency accumulation account or account in Litas needs to be opened in the name of the new company in a local bank. Current regulations require that funds that meet the minimum capital requirements either be transferred from abroad to the accumulation account or lodged locally subject to compliance with certain procedures. Opening the account is a routine procedure, but before any funds can be withdrawn, the investor must provide evidence of incorporation of the company. A certificate, which is required in the incorporation process, will be issued by the bank as conclusive evidence that the requisite funds meeting the minimum capital requirement are held in the account.

Once the pre-incorporation steps have been completed, the investor needs to obtain a consent from the local municipality to establish the new company and, if the new company is in manufacturing, also a permit from the Environmental Department.

In certain cases, depending on the business to be undertaken, further licenses may be required from other appropriate government departments before business can be commenced.

Present regulations prohibit foreign investors from engaging in business activities affecting areas such as national security and defense, the manufacture and sale of drugs and organization of lotteries and gambling.

Incorporation process

Once the name has been registered at the patent bureau, the pre-incorporation steps taken and all necessary additional permits obtained, the company can apply for registration with the Register of Enterprises at the Ministry of Economics.

If the investor is a company incorporated outside of Lithuania, the following must be submitted:

1. A certified copy (legalized at the Embassy of the Republic of Lithuania) of the registration certificate or other documentation proving that the investor is legally incorporated in its country of incorporation;
2. A copy of the latest available audited balance sheet of the investor or other acceptable document confirming the investor's ability to meet the minimum capital requirement;
3. A board document indicating the decision to incorporate a company in Lithuania and invest the required amount of capital;
4. A certified copy of the by-laws or memorandum and articles of association of the investor;

If the investor is a natural person, he must produce evidence (for example, in the form of letter from his bank) confirming that he has the financial resources to meet the capital required for investment

in the new company.

If translations into Lithuanian are necessary, these must be done through an official translation bureau in Lithuania.

In addition to the documents detailed above, the following further documents must be filed with the registration application:

- agreement/memorandum of incorporation certified by a notary public in Lithuania;
- by-laws certified by a notary public in Lithuania;
- certificate from the patent bureau showing registration of the company name;
- documentary evidence confirming the new company's official address;
- minutes of the shareholders meeting appointing the directors of the new company;
- certificate issued by the bank certifying that it has received the necessary capital for the company from abroad.

Once the application is ready and submitted, the Registrar of Enterprises is legally obliged to issue the registration certificate within 30 days after filing the application and all requisite documents with the Ministry of Economics.

V. Leading Trade Prospects for U.S. Business

Strategically, Lithuania is an attractive gateway to larger regional markets, including Russia, Belarus and other Baltic countries. American products in Lithuania are associated with high quality and in many cases customers are more willing to buy them due to the American origin.

Lithuanian heavy industry is impaired due to the shrinkage of orders from countries of the former Soviet Union. At the same time there are signs of revival in light industry, especially in textiles and clothing manufacture, and in timber and wood industries. The best prospects for sales of capital goods are in these industries and in upgrading of plants producing electricity and supplying district heating. As loans to agribusiness become available, the market for food processing equipment will improve.

The best trade opportunities for agricultural products are items not produced in northern climates, including cotton, tobacco, rice, fresh and dried tropical fruit and seeds.

Best Prospects for Non-Agricultural Goods and Services

1. Computers and Peripherals
2. Building Products
3. Pollution Control Equipment
4. Medical Instruments, Equipment & Supplies
5. Drugs & Pharmaceuticals

Rank of sector: 1

Name of sector: Computers & Peripherals

ITA industry code: CPT

The computer and peripherals market in Lithuania is well developed and all major hardware and software suppliers are represented on the Lithuanian computer market. There are about 400 computer companies in Lithuania and approximately 20 of them dominate in the market.

including IBM, HP and Compaq. Equipment and accessories from U.S. account for 80 percent of Lithuania's total annual imports in this sector. Lithuania offers potential trade opportunities for hardware and peripherals for Internet connectivity and on-line data information services.

Lithuania has accumulated a great deal of experience in developing software. This could offer great joint-venture opportunities for U.S. computer software companies. In addition to this costs of R&D in IT sector are relatively low.

Rank of sector: 2
Name of sector: Building Products
ITA industry code: BLD

The private sector in Lithuania is growing rapidly. During the Soviet years, houses and office buildings were allowed to deteriorate. As private ownership was introduced and the private commercial sector began to revive, a wide scale renovation of commercial and residential fixed property began. Virtually all products associated with building renovation and construction, e.g. paints, doors, windows, plumbing equipment, lighting, insulation materials and heating systems are in high demand.

Rank Sector: 3
Name of Sector: Pollution Control Equipment
ITA Industry Code: POL

Lithuania's environmental protection program began in 1992 when the Ministry of Environmental Protection addressed and prioritized all current environmental problems. Most of the measures included in the program, such as construction of wastewater treatment facilities in major cities, for example, have been implemented.

The awareness of the need to properly manage domestic waste has been noticeably growing over the past few years due to the extensive use of disposable packaging. Thus, modern recycling technologies are in great demand. Lithuania still has 954 storage sites containing 4,000 tons of old pesticides, which represent a serious ecological problem. Each year 1,700 tons of hospital disinfecting waste is dumped in the domestic waste sites. U.S. environmental technology companies could be very useful in bringing modern environmental technologies to solve these and other environmental problems. Water purification and wastewater treatment equipment and technology are also in demand.

Rank of sector: 4
Name of sector: Medical Instruments, Equipment & Supplies
ITA industry code: MED

The demand for high quality medical equipment and supplies is expected to grow due to an increasing percentage of elderly people in the population, constant appearance of new medical technologies and innovations, EU regulatory harmonization, and increased health awareness in the country. There are a number of hospitals in Lithuania which are in high demand of full scale technological upgrades and though due to the current financial difficulties most of hospital modernization projects have stalled, they will be resumed upon the availability of financial resources.

Rank of sector: 5
Name of sector: Drugs & Pharmaceuticals
ITA industry code: DRG

The Lithuanian pharmaceutical industry is small but the basis is strong. This sector was among the most advanced within the former Soviet Union, both in terms of production of final formulations and production of pharmaceuticals derived from animal sources. Lithuania at one time provided for up to 30 percent of the total Soviet market for insulin and other endocrine products. Traditionally Lithuanian universities maintain high teaching and training standards in the biological disciplines, which are key to developing pharmaceutical and biotechnological production techniques. The need to create a fully market-oriented pharmaceutical supply system is being emphasized. The objective is to provide access to affordable pharmaceutical products for Lithuania's population. The Government is seeking to attract foreign investment into the pharmaceutical-manufacturing sector in order to promote the development of such system. Lithuania's pharmaceutical industry offers low research, development and production costs for the new medicines.

VI. Trade Regulations and Standards

The Lithuanian customs tariff system was introduced in April 1993 and is still evolving. Lithuania extends MFN treatment to U.S. products, with consumer product tariffs at approximately 15%. Tariffs on agricultural products are relatively higher, based on the inclination of the Lithuanian Government to protect the local farmers. According to the agreement between Lithuania and the EU, tariffs on some agricultural and industrial goods of EU-origin will gradually be lowered.

Lithuania licenses imports of sugar, grain, alcohol and arms. There are no other quantitative constraints on imports. Lithuanian tariff classifications are based on the Harmonized Commodity Description and Coding System.

In addition to tariffs, imports are subject to excise taxes and an 18 percent VAT. Fixed investment goods imported to Lithuania are not subject to VAT, provided the importer is a registered VAT-payer and the imported asset does not threaten competitiveness.

A zero percent tax rate is levied on export services, international transportation and services related to export of goods. Excise taxes are applied to alcoholic beverages, tobacco, jewelry, cars and gasoline, at rates varying from 10% to 100%. The Import documentation required by Lithuanian customs authorities are a copy of the contract, an invoice, a bill of lading indicating the amount, weight and value of goods, and the certificate of origin. At the border, an importer or his agent must complete a customs declaration and a customs freight delivery note.

For meat imports, the State Veterinary Department provides border inspection controls for bovine spongiform encephalopathy (BSE), classical swine fever, salmonella, etc. Imported food products are required to have conformity certificates to guarantee quality and wholesomeness. A producer's declaration is required for cosmetics and toys.

VII. Investment Climate

- Openness to Foreign Investment

Lithuania has been actively encouraging foreign companies and investors to explore the investment opportunities in Lithuania. The basic principles of the foreign investment policy are as follows:

Equality

The law provides that equal protection is afforded to both foreign and domestic investors. No special permit is required from governmental authorities to invest foreign capital in Lithuania and there are no prohibitions or limitations provided the investor carries on business in accordance with Lithuanian law.

Investment forms

The law permits the incorporation of a business organization wholly or partially owned; or the acquisition of shares in an existing company. In accordance with the Lithuanian law, a foreign investor can sell, donate, mortgage or otherwise dispose of fully paid shares.

Concept of origin of foreign capital

Only foreign capital, i.e. capital created or obtained legally outside the territory of the Republic of Lithuania, and owned by foreign nationals, may be invested in Lithuania from abroad. Foreign investors can contribute capital in the form of money, movable or immovable assets or intellectual or industrial property.

Guarantees

Foreign investments and the investor's rights are today well protected by enforcement mechanisms of the new law. After tax payments, foreign investors have the right to repatriate the profit, income or dividends in cash or otherwise, or reinvest the income without any limitation. State institutions have no right to interfere with the legal possession of the foreign investor's property. In the event of justified expropriation, the investor is entitled to compensation equivalent to the market value of the property expropriated. State institutions and officials are obliged to keep confidential commercial secrets and must pay compensation for any loss or damage caused by illegal disclosure. Foreign investors are entitled to enforce their rights by applying to the courts of Lithuania or directly to the International Center for Settlement of Investment Disputes under the Washington Convention of 1965.

Taxation Incentives

Under the current regulations, company profits are exempt from taxation for the first three years. Thereafter for the next three years the tax rate (presently 29 per cent) is rebated by up to 50 percent, provided the level of foreign capital does not exceed 30 per cent of the company's capital and the foreign investment element exceeds \$ 3.0 million.

Companies incorporated prior to December 31, 1993 or prior to August 1, 1995 still enjoy enhanced tax incentives, namely 70 per cent and 50 percent tax reductions, respectively, on tax levied on the share of profit due to the foreign investor. As a further incentive to encourage foreign investment, contributions in kind made by foreign investors as part of the capital of a company both on incorporation and with respect to expansion are exempt from import customs duties.

Subsequently, if the company ceases to function, any remaining assets, which were contributed by the foreign investor, may be exported from Lithuania without the imposition of any custom duties.

- Conversion and Transfer policies

Lithuania's local currency is the Litas (LTL), equal to 100 Lithuanian cents. The Litas is currently pegged, under a Currency Board system, to the U.S. Dollar at a rate 4:1. Under the Currency Board, the amount of currency in circulation is tied to the reserves of the Bank of Lithuania. Having achieved monetary stability, the current government is committed to a gradual withdrawal from the Currency Board leading to a transitional peg to a Euro/U.S. Dollar basket in 2000 and an eventual floating exchange rate.

- Expropriation and Compensation

Since regaining independence, the Lithuanian government has been denationalizing private property seized by Soviet authorities during the occupation. Lithuanian law allows expropriation for compensation under the right of eminent domain but since liberation there have not been any cases of expropriation of private property by the Lithuanian government.

- Dispute settlement

There are currently no investment disputes with the Lithuanian Government involving either U.S. or other foreign investors in Lithuania. Foreign investments in Lithuania are protected by:

- 1) The Constitution, its laws and other lawful acts regulating economic-commercial activities. These measures protect the investor's property against nationalization or requisition
 - 2) International agreements.
 - 3) Bilateral contracts on the encouragement of investments and on mutual investment protection.
 - 4) The law on capital investment in the Republic of Lithuania and other lawful acts regulating customs duties, taxes and relationship with financial and inspection authorities. This law also establishes the order of dispute settlement.
- Lithuanian state power authorities and institutions have no legal rights to create any obstacles to the investor in using or disposing of his property unless he has violated the laws of the Republic of Lithuania.

- Intellectual Property Rights Protection

In the area of intellectual property, Lithuanian policy has been to observe international standards and to consider subscribing to international conventions beyond those accepted by the independent Lithuanian government before World War II. In 1990 Lithuania joined the World Intellectual Property Organization (WIPO) and signed the Paris Convention for the Protection of Industrial Property. In April 1994 Lithuania signed a trade agreement with the U.S., which includes reciprocal protection of intellectual property. The Lithuanian Parliament is considering laws for copyright enforcement, including amendments to the criminal and civil codes. Pirated recordings and software, both widely available, are regularly confiscated and destroyed by the police.

- Regulatory System: Laws and Procedures

Lithuania introduced a law on restriction of monopolies in 1993 and on competition in 1999. Businesses are precluded from manipulating prices or quantities of goods offered for sale and may not create artificial shortages in order to boost prices. The Lithuanian Anti-Monopoly Committee oversees the implementation of the law.

- Efficient Capital Markets and Portfolio Investment

Government policies do not interfere in the free flow of financial resources or the allocation of credit. Commercial credit is restricted to high interest, short-term trade related loans which are in theory available to foreigners but in practice totally unattractive to foreign investors with other sources of credit available.

The underlying weakness of the banking system became apparent in late December 1995 when several smaller banks collapsed, and the Government imposed a moratorium on the two largest commercial banks (Litimpex and Akcinis Inovacinis Bankas). Unsustainable deposit interest payments, inadequate banking laws and regulations as well as risky lending practices and insider trading were the causes of the crisis. Since then, conditions have improved considerably, and all Lithuanian banks weathered the Russian financial crisis successfully in fall 1998.

- Political Violence

There have been no reports of political violence or politically motivated damage to property since 1991. Civil disturbances are unlikely and there are no signs of any nascent insurrection movement.

- Bilateral Investment Agreements

Lithuania has established commercial relations with more than 160 countries. Free Trade Agreements have been signed with 20 countries, including the EU. Additionally, agreements on the most favored nation's trade status have been signed with 22 countries. The United States and Lithuania have entered into a trade agreement that includes protection of intellectual property. A bilateral investment treaty between the U.S. and Lithuania has been initiated.

- OPIC and other Investment Insurance Programs

Overseas Private Investment Corporation (OPIC) coverage is available for U.S. investments in Lithuania.

- Labor

Lithuanian labor is inexpensive and highly qualified. By law, white-collar workers have a 40-hour workweek. Blue-collar workers have a 48-hour workweek with premium pay for overtime. There are minimum legal health and safety standards for the workplace. However, worker complaints indicate that these standards are sometimes ignored. The minimum wage is adjusted regularly by the parliament, but enforcement of the minimum wage is almost non-existent. The average monthly wage is the equivalent of approximately \$ 250. The official unemployment rate in the beginning of 1999 was about 7%. The unofficial rate is higher. Skilled and unskilled labor are both available. Lithuanian labor unions have minimal influence on labor management but there have not been any major industrial strikes since regaining independence.

- Foreign Free Trade Zones/Free Ports

Lithuanian Parliament voted in favor of the Law on the Fundamentals of Free Economic Zones on June 28, 1995. The law regulates conditions for the establishment of free trade zones in Lithuania, as well as the legal status of firms operating in such zones. Currently, Lithuania has three free trade zones. in Siauliai. Klaipeda and

Kaunas. The largest airport in the Baltic States is located in Siauliai, Kaunas is an air, road, and rail hub, and Klaipeda is the largest port. The goal of the zones is to provide favorable conditions to promote investments in trade and manufacture and export through tax, customs and free monetary-financial operation incentives. However, so far the zones are badly managed and have attracted few businesses.

Benefiting from its geographical position and free economic zones, Lithuania also has a good access to eastern markets including Russia. Moreover, the labor force in Lithuania is not only cheap, but also highly qualified.

- Capital Overflow Policies

The Lithuanian government does not have any restricting policies regarding the outflow of capital.

- Foreign direct Investment Statistics

Over the past few years, Lithuania has become an attractive location for foreign investors and a competitive center for product sourcing in the region. The main reasons are high-skilled, low-cost alternative to production in the west, along with a stable and strong production potential to serve the huge markets to the east. Economic growth, a stable currency and a favorable business environment make Lithuania an relatively attractive investment location in the region.

Cumulative FDI reached \$1 billion by the end of 1997. After the privatization of Lithuanian Telecom in July 1998, cumulative FDI increased by \$510 million. Lithuania's accelerating infrastructure privatization program is projected to increase the FDI by approximately \$2 billion in 1999. As of January 1999, the U.S. is the largest investor in Lithuania. It accounts for 18% of the total 1999 FDI (\$396 million.)

- Major Foreign Investors

Lithuania's largest foreign investors (as determined by an informal telephone survey in February 1998) are Telia/Sonera- \$510 million, Williams Inc. - \$150, Motorola - \$100 million, Philip Morris - \$60 million, Kraft Jacobs Suchard - \$15.5 million, Statoil - \$37 million, Shell - \$28 million, Cawler Decken and Tuhfabriken AG - \$22.25 million, Coca-Cola - \$31 million.

VIII. Trade and Project Financing

Medium-term ExIm Bank financing is available in Lithuania for credits that are backed by the full faith and credit of the Lithuanian government or guaranteed by a proven, reputable financial entity. EBRD financing is also available for both private and public sector projects. The EBRD recently offered an ECU 11.4 million financing for the regional Baltic Investment Fund. Lithuania has received grants of ECU 33 million for safety upgrades and ECU 7 million for an in-depth safety assessment at the Ignalina nuclear power plant. Lithuania is also benefiting from 21 technical cooperation projects totaling ECU 6.3 million and from approximately a third of some ECU 8.5 million approved for 21 regional technical cooperation projects in the Baltic States.

IX. Business Travel

U.S citizens are allowed visa-free entry for a period of 90 days.

Phone, cellular phone, fax and e-mail communications are excellent, though the connectivity can be limited in rural areas.

Major hotels, quality restaurants, and some stores accept credit cards, but it is still mainly a cash economy. MasterCard and Visa are the most widely accepted credit cards; Diners Club and American Express are also accepted at a number of hotels and some restaurants and service stations. Budget accommodations, fast-food restaurants, smaller retail establishments and outdoor markets operate on a cash-only basis. A few commercial banks cash traveler's checks or provide cash advances against credit cards but the service charges are high.

Lithuanian currency, the Litas, may be bought and sold at numerous currency exchange offices. In rural areas travelers should be prepared to pay cash for most of their expenses.

Lithuania is easily reached by air from Western Europe and, with connecting flights, from the United States. Travel by car is generally the fastest and most convenient mode of transportation within Lithuania and other two Baltic States.

There are today numerous restaurants in the major cities with first class cuisine and service. Supply and diversity of imported food, household supplies, common medications and personal items are excellent. Unleaded gas is available in every gasoline station in the country.

The availability of modern housing is still quite limited though improving. Often, apartments have to be renovated to meet the Western standards. Despite recent improvements, hot water may not always be available through municipal district heating systems; major apartment renovations should include installation of hot water heaters.

Street crime is relatively high in Lithuania. Travelers should take the same precautions, as they would visiting unfamiliar urban centers in the U.S. Although drinking water is chlorinated, it is not considered entirely safe because the filtering system does not remove viruses. Boiling drinking water is recommended. Imported spring water is available at many stores. Food contamination is not a serious problem.

APPENDICES

A. COUNTRY DATA

1. Country Profile

Population: 3.8 million (July 1, 1995)

Population growth rate in 1994: -1 percent

Religions: the Roman Catholic religion is dominant. Twenty other religious communities conduct their activities in Lithuania: Evangelic (Lutherans and Reformers), Orthodox believers, Old Believers, Jewish, Buddhists and others.

Government system: Parliamentary Democracy. Lithuania re-adopted its 1922 Constitution in October 1991. According to the Lithuanian Constitution the Seimas (Parliament) approves all Lithuanian laws and

is responsible for making strategic decisions on political and economic development of the Republic.

Languages: Lithuanian is the official language; most Lithuanian citizens also speak Russian. English is the most popular Western language. German is also spoken.

Workweek: 40 hours.

Key Economic Indicators

(USD Million except where noted)

Economic Indicator	1996	1997	1998	E1999
Gross Domestic Product (current prices)	7,892	9,585	10,736	na
GDP per capita (in USD)	2,127	2,586	2,899	na
Real GDP Growth (%)	4.7	7.3	5.1	-4.8 (1 st q)
Inflation Rate(%)	13.1	8.4	2.4	-0.3 (1 st q)
Unemployment (%) (1 st q) (registered)	6.2	6.7	6.9	8.4
Foreign Exchange Reserves	1,366	1,429	1,243	
Average Exchange Rate (Lt/USD)	4.0	4.0	4.0	4.0
Foreign Debt	1,203	1,403	1,682	na

TRADE (USD MILLION)

<u>Foreign Trade</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Total Lit Exports FOB	3,355	3,860	3,710
Total Lit Imports FOB	4,560	5,644	5,793
US Exports to Lit		165	
US Imports from Lit			105
	<u>1996</u>	<u>1997</u>	<u>1998</u>
US Share of Lit Imports (%)		3%	
Foreign Trade Balance	-1,203	-1784	-2083

Trade Balance with US

FDI (cumulative)	700	1040	1975
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FDI from US % 12%

TOP TEN FOREIGN INVESTORS IN LITHUANIA

Investor	Country	Lithuanian Co	Sector	Value USD
Mill				
Amber Consortium	Swe/Fin	Lietuvos Telekomas	telecom	510
Williams International	USA	Mazeikiu Nafta	petroleum	150
Telia/Sonera	Swe/Fin	Omnitel	telecom	66
Philip Morris	USA	Philip Morris Lietuva	tobacco products	60
SEB	Swe	Vilniaus Bankas	banking	57
Tele Denmark Millicom East	DK/Lux	Bite GSM	telecom	50
Carlsberg	DK	Dvyturus	brewery	45
Den Norske Stats Oljes.	Nor	Lietuva Statoil	petroleum	38
Danisco Sugar	DK	Lithuanian Sugar	sugar prod.	34
Coca-Cola Co.	USA 31.5	Coca-Cola Bottlers	soft drinks	

B. U.S. and Lithuanian contacts

Lithuanian Embassy: 2622 16th Street N.W. Washington D.C. 20009; ph: 202-2345860; fax: 202-3280466

Lithuanian Development Agency: Sv Jono str. 3, 2001 Vilnius,
Lithuania; ph: 370-2 627438; fax: 370-2 220160

Customs Department: A. Jaksto str. 1/25, LT-2600 Vilnius, Lithuania;
ph: 370-2 226415; fax: 370-2 224948

State Competition and Consumer Protection office: Gedimino pr. 38/2,
LT-2600 Vilnius, Lithuania; ph: 370-2 621758; fax: 370-2 226419

Lithuanian Standardization Board: A. Jaksto str. 1/25, LT-2600
Vilnius, Lithuania; ph: 370-2 226962; fax: (370-2) 226259

National Stock Exchange of Lithuania: Ukmerges str. 41, LT- 2662
Vilnius, Lithuania; ph: 370-2 723611; fax: 370-2 724894

State Veterinary Service: Gedimino pr. 19, LT- 2025 Vilnius,
Lithuania; ph: 370-2 623513; fax: 370-2 620750

State Patent Bureau: Algirdo str. 31, LT-2025 Vilnius, Lithuania; ph:
370-2 233349; fax: (370-2) 233357

State Tax Inspection under the Ministry of Finance: Sermuksniu str.
6, LT-2695 Vilnius, Lithuania; ph: 370-2 620060; fax: 370-2 621924

Commercial Court of the Republic of Lithuania: Gedimino pr. 39/1, LT-
2640 Vilnius, Lithuania; ph: 370-2 622843; fax: 370-2 619927

Association of Lithuanian Entrepreneurs: A. Jaksto str. 9, LT-2600
Vilnius, Lithuania; ph: 370-2 614963; fax: 370-2 220448

Association of Lithuanian Chambers of Commerce and Industry: V.
Kudirkos str. 18, LT-2600 Vilnius, Lithuania; ph: 370-2 222630; fax:
370-2 222621

American Chamber of Commerce: Room 204, Lukiskiu str.5, 2600 Vilnius,
Lithuania; ph: 370-2 611181; fax: 370-2 226128; email:
acc@post.omnitel.net

The Bank of Lithuania: Gedimino pr. 6, LT-2001 Vilnius, Lithuania;
ph: 370-2 224008; fax: 370-2 628124

Major Commercial Banks

Vilniaus Bankas: Gedimino pr. 12, LT-2600 Vilnius, Lithuania; ph:
370-2 610723; fax: 370-2 626557

Hermis Bank: Jogailos str. 9/1, LT-2001 Vilnius, Lithuania; ph: 370-2
226165; fax: 370-2 224477

Snoras Bank: Tilzes str. 170, LT-5400 Siauliai, Lithuania; ph: 370-1
426338; fax: 370-1 426592

Litimpex Bank: Vilniaus str. 28, LT-2600 Vilnius, Lithuania; ph: 370-
2 220388; fax: 370-2 221144

U.S. Embassy State Department Contacts:

Matthew Christ, POL/ECON
Audrone Cernyte, Economic assistant

U.S. Department of Commerce Contacts
Karen Pilmanis, Principal Commercial Officer
Tuula Javanainen, Commercial Specialist
American Embassy,
Dag Hammarskjolds Vag 31
11589 Stockholm, Sweden
ph: 46-8 7835346; fax: 46-8 6609181

Jonas Vasilevicius, Commercial assistant
US Embassy
Pranciskonu 3/6
2001 Vilnius, Lithuania
ph. 370 2 223 031; fax: 370 2 222 779

Export-Import Bank of the U.S.: International Business Development,
811 Vermont Ave, N.W., Washington, D.C. 20571,
tel: (202) 565-3913; fax: (202) 566-7524

Overseas Private Investment Corporation (OPIC): Central/Eastern Europe and Central Asia, Investment Development, 1100 New York Avenue, N.W., Washington D.C. 20527, tel: (202) 336-8617, fax: (202) 408-5145

U.S. Trade and Development Agency: Central, Eastern & Southern Europe, Room 309 SA-16, Washington D.C. 20523-1602, tel: (702) 875-4357, fax: (703) 875-4009

C. Lithuanian trade fairs and Exhibitions, 1999

Year 2000

FEB 17-19 VILNIUS BOOK FAIR

Project managers: Milda Gembickiene; tel: (370 2) 686824, Jolita Bareikiene; tel: (370 2) 686820

MARCH 2-5, CINDERELLA - International exhibition of cosmetics and perfume, equipment for beauty and hairdressing saloons, jewelery, lingerie, and fashionable accessories.

Project manager: Nijole Gaveliene; tel: (370 2) 686831

MARCH 2-5, S.T.S. - SPORT- TOURISM- FITNESS.

Project manager: Zita Miskiniene; tel: (370 2) 686832

MARCH 14-17, BMT

Organizer: VISUS PLENUS; tel: (370 2) 236326

MARCH 16-19, FURNITURE - Furniture and new design ideas in furniture production; Project manager: Ms.Saule Skaceviciene; tel: (370 2) 686829, Ms. Lilijana Dirsienne
tel: (370 2) 686836

MARCH 25-26, LITHUANIAN DOG CHAMPIONSHIP ZOOPANORAMA

Coordinator: Danute Golubiene; tel: (370 2) 686828

APRIL 5-8, ALT - Exhibition of automobiles, car accessories, transport, services, investments, logistics.

Project manager: Arturas Geguzis; tel: (370 2) 686834

APRIL 13-14, VKV - BUSINESS CONTACTS AND MANAGEMENT

Project manager: Arturas Geguzis; tel: (370 2) 686834

APRIL 13-15, VIVATUR

Organizer: VISUS PLENUS; tel: (370 2) 236326

APRIL 27-30, RESTA - Spring exhibition of building and renovation; Project manager: Mira Kajackiene; tel: (370 2) 686825

MAY 9-12, AGROBALT - Exhibition of agriculture, food industry and packaging; Project manager: Lilijana Dirsienne; tel: (370 2) 686824

MAY 23-26 BALTECHNIKA - Exhibition of Industrial equipment, electronics, electrical engineering, measuring equipment, environmental protection; Project manager: Zita Miskiniene; tel: (370 2) 686832

JUNE 1

OPENING OF THE WORLD EXHIBITION EXPO 2000

JULY 6 LITHUANIAN NATIONAL DAY AT EXPO 2000

Coordinator General: "Litexp" tel: (370 2) 686823. 686824

AUG 23-
27 BABY LAND - Exhibition of children's clothing, footwear, games,
school articles, baby care; Project manager: Mira Kajackiene; tel:
(370 2) 686825

SEPT
12-15 BALTIC TEXTILE AND LEATHER
Project manager: Saule Skaceviciene; tel: (370 2) 686829

SEPT 26-29 BALTMEDICA/... Exhibition of medical equipment, pharmacy,
stomatology and optics; Project manager: Nijole Gaveliene; tel: (370
2) 686831

OCT 11-
14 BUILDING
Project manager: Mira Kajackiene; tel: (370 2) 686825

OCT 24-27 INFOBALT - Exhibition of computers and
telecommunications; Project manager: Arturas Geguzis; tel: (370 2)
686834

NOV 9-
11 BALTGASTRO - Exhibition of shop, hotel and restaurant
requisites; Project manager: Saule Skaceviciene; tel: (370 2) 686829

NOV 23-26 HOUSEHOLD - Exhibition of electric domestic appliances,
house-ware, Interior accessories; Project manager: Lilijana Dirsiene;
tel: (370 2) 686824

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